

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2002

Federal Grantor/Pass -Through Grantor/Program Title	Federal CFDA Number	Contract Number	Beginning (Accrued) Deferred Grant Revenue	Cash Receipts	Expenditures	Ending (Accrued) Deferred Grant Revenue
U.S. DEPARTMENT OF AGRICULTURE						
Passed through Tennessee Department of Agriculture:						
Emergency Food Assistance Program (Administrative Costs)	10.568	Z-01-001799	\$ (8,861)	\$ 48,861	\$ 40,000	\$ -
Emergency Food Assistance Program (Administrative Costs)	10.568	Z-02-008784	-	26,576	35,435	(8,859)
Total Emergency Food Assistance Program			(8,861)	75,437	75,435	(8,859)
Emergency Food Assistance Program (Food Commodities - Noncash)	10.569	N/A	-	378,579	378,579	-
Cooperative Forestry Assistance	10.664	Z-01-099773-00	(19,013)	19,974	961	-
Cooperative Forestry Assistance	10.664	Z-02-004442-02	-	-	14,544	(14,544)
Total Cooperative Forestry Assistance			(19,013)	19,974	15,505	(14,544)
Passed through Tennessee Department of Human Services:						
Child and Adult Care Food Program	10.558	03-47-55915-00-8	(32,754)	274,119	275,585	(34,220)
Child and Adult Care Food Program	10.558	03-47-56136-00-6	(10,257)	64,589	69,303	(14,971)
Child and Adult Care Food Program	10.558	03-47-60076-00-9	(4,138)	22,507	21,222	(2,853)
Total Child and Adult Care Food Program			(47,149)	361,215	366,110	(52,044)
Summer Food Service Program for Children	10.559	DA-02-00010-00	-	-	356,631	(356,631)
Summer Food Service Program for Children	10.559	DG-00-015711-00	(291,350)	609,430	318,080	-
Total Summer Food Service Program for Children			(291,350)	609,430	674,711	(356,631)
Total U.S. Department of Agriculture			(366,373)	1,444,635	1,510,340	(432,078)

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CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
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Federal Grantor/Pass -Through Grantor/Program Title	Federal CFDA Number	Contract Number	Beginning (Accrued) Deferred Grant Revenue	Cash Receipts	Expenditures	Ending (Accrued) Deferred Grant Revenue
(continued from previous page)						
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT						
Upfront Grant	14.000	UPG01TN01437	\$ -	\$ 1,095,149	\$ 1,461,652	\$ (366,503)
FHLB Affordable Grant	14.000	Project# 01A0450	-	206,198	294,273	(88,075)
Community Development Block Grants/Entitlement Grants	14.218	B00MC47001	(341,182)	1,425,258	1,084,076	-
Community Development Block Grants/Entitlement Grants	14.218	B01MC47001	-	153,857	166,765	(12,908)
Community Development Block Grants/Entitlement Grants	14.218	Program Income	-	1,364,967	1,364,967	-
Total Community Development Block Grants/Entitlement Grants			(341,182)	2,944,082	2,615,808	(12,908)
Emergency Shelter Grants Program	14.231	S00MC47003	-	12,107	12,107	-
Emergency Shelter Grants Program	14.231	S01MC47003	-	73,581	73,581	-
Total Emergency Shelter Grants Program			-	85,688	85,688	-
Shelter Plus Care	14.238	TN37C931017	(19,083)	56,437	42,159	(4,805)
Home Investment Partnerships Program	14.239	M99MC470200	(32,297)	164,973	132,676	-
Home Investment Partnerships Program	14.239	M00MC470200	-	366,840	366,840	-
Home Investment Partnerships Program	14.239	M01MC470200	-	380,465	380,465	-
Home Investment Partnerships Program	14.239	Program Income	-	277,996	277,996	-
Total Home Investment Partnerships Program			(32,297)	1,190,274	1,157,977	-
Total U.S. Department of Housing and Urban Development			(392,562)	5,577,828	5,657,557	(472,291)

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CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2002

Federal Grantor/Pass -Through Grantor/Program Title	Federal CFDA Number	Contract Number	Beginning (Accrued) Deferred Grant Revenue	Cash Receipts	Expenditures	Ending (Accrued) Deferred Grant Revenue
(continued from previous page)						
U.S. DEPARTMENT OF JUSTICE						
Local Law Enforcement Block Grants Program	16.592	1999-LB-VX-7822	\$ 394,731	\$ -	\$ 360,706	\$ 34,025
Local Law Enforcement Block Grants Program	16.592	2000-LB-BX-0878	285,350	-	285,350	-
Local Law Enforcement Block Grants Program	16.592	2001-LB-VX-7822	-	557,745	55,871	501,874
Total Local Law Enforcement Block Grants Program			680,081	557,745	701,927	535,899
Executive Office for Weed and Seed	16.595		(94,131)	-	-	(94,131)
Public Safety Partnership and Community Policing Grants (COPS)	16.710	95CCWX0214	(374,227)	858,528	484,301	-
Public Safety Partnership and Community Policing Grants (COPS)	16.710	97-CL-WX-0018	(50,532)	86,812	36,280	-
Public Safety Partnership and Community Policing Grants (COPS)	16.710	2001CKWX0106	-	-	720,938	(720,938)
Total Public Safety Partnership and Community Policing Gra			(424,759)	945,340	1,241,519	(720,938)
Passed through Tennessee Department of Children's Services:						
Juvenile Accountability Incentive Block Grant	16.523	GG-0109052	(84,016)	84,016	-	-
Total U.S. Department of Justice			77,175	1,587,101	1,943,446	(279,170)
U.S. DEPARTMENT OF TRANSPORTATION						
Passed through Tennessee Department of Transportation:						
Highway Planning and Construction	20.205	STP-M-9202(54)	3,192	-	3,192	-
Highway Planning and Construction	20.205	Z-01-000781-00	(96,936)	254,317	157,381	-
Highway Planning and Construction	20.205	Z-02-008453-00	-	250,474	449,785	(199,311)
Total Highway Planning and Construction			(93,744)	504,791	610,358	(199,311)

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CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
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Federal Grantor/Pass -Through Grantor/Program Title	Federal CFDA Number	Contract Number	Beginning (Accrued) Deferred Grant Revenue	Cash Receipts	Expenditures	Ending (Accrued) Deferred Grant Revenue
(continued from previous page)						
Federal Transit Metropolitan Planning grants	20.505	GG-01-08992-00	\$ (29,824)	\$ 56,358	\$ 26,534	\$ -
Federal Transit Metropolitan Planning grants	20.505	GG-02-09386-00	-	-	48,885	(48,885)
Total Federal Transit Metropolitan Planning grants			(29,824)	56,358	75,419	(48,885)
State and Community Highway Safety	20.600	Z-01-002160	(11,000)	11,000	-	-
Passed through Georgia Department of Transportation:						
Highway Planning and Construction	20.205	50558-1565-00-001(9)653.6	(14,753)	14,753	-	-
Highway Planning and Construction	20.205	50558-1565-00-002(9)653.6	-	47,026	95,896	(48,870)
Highway Planning and Construction	20.205	SPR00-0160-000-02	-	-	21,258	(21,258)
Total Highway Planning and Construction			(14,753)	61,779	117,154	(70,128)
Total U.S. Department of Transportation			(149,321)	633,928	802,931	(318,324)
INSTITUTE OF MUSEUM AND LIBRARY SERVICES						
Passed through Tennessee Libraries and Archives:						
State Library Program	45.310	GG-01-09207-00	-	1,279	1,279	-
State Library Program	45.310	GG-02-09383-00	-	2,500	2,500	-
State Library Program	45.310	Z-02-009920-00	-	1,200	1,200	-
Total Institute of Museum and Library Services			-	4,979	4,979	-
U.S. ENVIRONMENTAL PROTECTION AGENCY						
Air Pollution Control Program Support	66.001	A004084-01	-	270,503	270,503	-
Air Pollution Control Program Support	66.001	A004084-02	-	2,008	2,008	-
Total Air Pollution Control Program Support			-	272,511	272,511	-

(continued on next page)

CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2002

Federal Grantor/Pass -Through Grantor/Program Title	Federal CFDA Number	Contract Number	Beginning (Accrued) Deferred Grant Revenue	Cash Receipts	Expenditures	Ending (Accrued) Deferred Grant Revenue
(continued from previous page)						
Surveys, Studies, Investigations and Special Purpose Grants	66.606	PM98437198	\$ -	\$ 30,000	\$ 30,000	\$ -
CEPP Technical Assistance Grants Program	66.810	SR-97409300	-	33,207	33,207	-
Brownfield Pilots Cooperative Agreements	66.811	BP98477899-1	-	111,216	111,216	-
Total U.S. Environmental Protection Agency			-	446,934	446,934	-
U.S. DEPARTMENT OF ENERGY						
Passed through Tennessee Department of Human Services:						
Weatherization Assistance for Low-Income Persons	81.042	Z-01-098227-00	(82,710)	82,710	-	-
Weatherization Assistance for Low-Income Persons	81.042	Z-02-005287-00	-	153,450	217,414	(63,964)
Total Weatherization Assistance for Low-Income Persons			(82,710)	236,160	217,414	(63,964)
FEDERAL EMERGENCY MANAGEMENT AGENCY						
Emergency Food and Shelter National Board Program	83.523	20-7682-00	-	29,356	29,356	-
Passed through Tennessee Department of Military (Disaster Relief):						
Hazard Mitigation Grant	83.548	GG-99-08308-00	(168,557)	238,682	70,125	-
Total Federal Emergency Management Agency			(168,557)	268,038	99,481	-
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
Head Start	93.600	04CH0047/24	(175,941)	175,941	-	-
Head Start	93.600	04CH0047/25	-	6,077,080	6,892,750	(815,670)
Total Head Start			(175,941)	6,253,021	6,892,750	(815,670)
(continued on next page)						

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Year Ended June 30, 2002

Federal Grantor/Pass -Through Grantor/Program Title	Federal CFDA Number	Contract Number	Beginning (Accrued) Deferred Grant Revenue	Cash Receipts	Expenditures	Ending (Accrued) Deferred Grant Revenue
(continued from previous page)						
Passed Through Tennessee Department of Human Services:						
Low-Income Home Energy Assistance	93.568	Z-01-098246-00	\$ (32,583)	\$ 32,583	\$ -	\$ -
Low-Income Home Energy Assistance	93.568	Z-01-005267-00	-	604,355	607,938	(3,583)
Total Low-Income Home Energy Assistance			(32,583)	636,938	607,938	(3,583)
Community Services Block Grant	93.569	Z-01-099751-00	(64,655)	64,655	-	-
Community Services Block Grant	93.569	Z-02-006227-00	-	477,470	526,685	(49,215)
Total Community Services Block Grant			(64,655)	542,125	526,685	(49,215)
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	GG-00-08462-01	(43,190)	43,190	-	-
Total U.S. Department of Health and Human Services			(316,369)	7,475,274	8,027,373	(868,468)
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE						
Foster Grandparent Program	94.011	439S019/17	109,960	-	109,960	-
Foster Grandparent Program	94.011	U-01SFTN002	-	357,937	379,500	(21,563)
Total Corporation for National and Community Services			109,960	357,937	489,460	(21,563)
TOTAL EXPENDITURES OF FEDERAL AWARDS - PRIMARY GOVERNMENT UNITS			(1,288,757)	18,032,814	19,199,915	(2,455,858)

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CITY OF CHATTANOOGA, TENNESSEE

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2002

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(continued from previous page)						
Component Units						
Chattanooga Area Regional Transportation Authority						
U.S. DEPARTMENT OF TRANSPORTATION						
Federal Transit - Capital Investment Grants	20.500	TN-03-0042	\$ -	\$ 487,450	\$ 487,450	\$ -
Federal Transit - Capital Investment Grants	20.500	TN-03-0031	-	314,422	314,422	-
Federal Transit - Capital Investment Grants	20.500	TN-03-0059	-	81,891	81,891	-
Passed through Tennessee Department of Transportation:						
Federal Transit - Capital Investment Grants	20.500	TN-03-0058	-	-	195,000	(195,000)
Total Federal Transit - Capital Investment Grants			-	883,763	1,078,763	(195,000)
Federal Transit - Formula Grants	20.507	TN-37-X001	(21,356)	22,500	1,144	-
Federal Transit - Formula Grants	20.507	TN90-X142	-	769,793	769,793	-
Federal Transit - Formula Grants	20.507	TN-90-X164	(878)	878	-	-
Federal Transit - Formula Grants	20.507	TN-90-X169	(118,711)	1,249,092	1,130,381	-
Federal Transit - Formula Grants	20.507	TN-90-X190	-	335,416	335,416	-
Federal Transit - Formula Grants	20.507	TN-90-X180	(365,388)	3,301,369	2,942,979	(6,998)
Total Federal Transit - Formula Grants			(506,333)	5,679,048	5,179,713	(6,998)
Passed through Tennessee Department of Transportation:						
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	TN-16-0026	-	193,232	193,232	-
Passed through The University of Tennessee:						
State Planning and Research	20.515	N/A	-	76,268	80,066	(3,798)
Job Access - Reverse Commute	20.516	TN-37-X008	(18,269)	296,761	302,173	(23,681)
Total Expenditures of Federal Awards - Chattanooga Area Regional Transportation Authority			(524,602)	7,129,072	6,833,947	(229,477)

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CITY OF CHATTANOOGA, TENNESSEE

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(continued from previous page)						
<u>Awards Audited by Other Auditors</u>						
Chattanooga Metropolitan Airport Authority						
U.S. DEPARTMENT OF TRANSPORTATION						
Airport Improvement Program	20.106	3-47-0009-17	\$ (338)	\$ 210,265	\$ 214,923	\$ (4,996)
Airport Improvement Program	20.106	3-47-0009-20	(6,823)	250,984	244,161	-
Airport Improvement Program	20.106	3-47-0009-21	(73,146)	778,667	776,103	(70,582)
Airport Improvement Program	20.106	3-47-0009-22	(26,325)	3,355,497	3,489,274	(160,102)
Airport Improvement Program	20.106	3-47-0009-23	(20,079)	43,000	22,921	-
Airport Improvement Program	20.106	3-47-0009-24	-	295,939	295,939	-
Airport Improvement Program	20.106	3-47-0009-25	-	-	46,424	(46,424)
Total Expenditures of Federal Awards - Component Unit Audited by Other Auditors			(126,711)	4,934,352	5,089,745	(282,104)
Total Expenditures of Federal Awards - Component Units			(651,313)	12,063,424	11,923,692	(511,581)
TOTAL EXPENDITURES OF FEDERAL AWARDS - REPORTING ENTITY			(1,940,070)	30,096,238	31,123,607	(2,967,439)
STATE AWARDS						
Passed through Tennessee Department of Transportation:						
South Chickamauga Greenway		STP-M-9303(58)	-	215,200	215,200	-
Passed Through Tennessee Emergency Management Agency						
Hazard Mitigation Grant		GG-99-08308-00	-	39,780	39,780	-
(continued on next page)						

CITY OF CHATTANOOGA, TENNESSEE

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Year Ended June 30, 2002

Federal Grantor/Pass -Through Grantor/Program Title	Federal CFDA Number	Contract Number	Beginning (Accrued) Deferred Grant Revenue	Cash Receipts	Expenditures	Ending (Accrued) Deferred Grant Revenue
(continued from previous page)						
Passed through Tennessee Department of Finance and Administration:						
Development Resource Center		529/000-11-96	\$ (322,637)	\$ 2,447,923	\$ 2,279,675	\$ (154,389)
Passed through Georgia Department of Transportation:						
Origin - Destination Survey Contract		SPR00-0160-000-02	-	-	5,314	(5,314)
Passed through Tennessee Department of Environment and Conservation:						
Household Hazardous Waste Grant		GG-97-07431-05	(64,117)	64,117	-	-
TOTAL EXPENDITURES OF STATE AWARDS - PRIMARY GOVERNMENT UNIT			(386,754)	2,767,020	2,539,969	(159,703)

Component Units

Chattanooga Area Regional Transportation Authority

Passed through Tennessee Department of Transportation:

State funding for TN-90-X164	N/A	GG-0008467	(1,828)	1,937	109	-
State Sacramento Bus Rehab		GG-0008615	-	394	394	-
State funding for TN-90-X169		GG-0108880	(96,671)	209,293	113,802	(1,180)
State funding for TN-90-X142		GG-9707542	(687)	80,017	79,330	-
State funding for TN-03-0042		GG-9908187	-	60,931	60,931	-
State funding for TN-37-X001		Z-00097875	(96,211)	96,211	-	-
State funding for TN-03-00055		GG-0109005	(9,758)	9,758	-	-
State funding for TN-90-X180		GG-0209340	-	398,936	424,684	(25,748)

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CITY OF CHATTANOOGA, TENNESSEE

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(continued from previous page)						
State Signal Priority		TNSPR-RES1208	\$ -	\$ 19,067	\$ 20,017	\$ (950)
State funding for TN-03-0058		GG-0209531	-		24,375	(24,375)
State funding for TN-30-X190		GG-0209488	-	-	41,926	(41,926)
State funding for TN-03-0059		GG-0209487	-	10,237	10,237	-
State funding for TN-16-0026		Z-02009312	-	24,154	24,154	-
State operating 33-901-9656		GG-0209342	-	1,551,257	1,697,546	(146,289)
State funding for TN-37-X008		GG-0209257	-	301,220	377,829	(76,609)
Total Expenditures of State Awards - Chattanooga Area Regional Transportation Authority			(205,155)	2,763,412	2,875,334	(317,077)
<u>Awards Audited by Other Auditors</u>						
Chattanooga Metropolitan Airport Authority						
Airport Improvement Program		33-555-0757-04	-	4,095	4,095	-
Airport Improvement Program		33-555-0758-04	-	42,445	42,445	-
Airport Improvement Program		33-555-0763-04	-	10,891	10,891	-
Airport Improvement Program		33-555-0146-04	(149)	-	11,951	(12,100)
Airport Improvement Program		33-555-0457-04	(41,085)	71,255	30,170	-
Airport Improvement Program		33-555-0147-04	(1,656)	-	13,366	(15,022)
Airport Improvement Program		33-555-0149-04	(23,890)	-	43,985	(67,875)
Airport Improvement Program		33-555-0162-04	(4,463)	-	197,359	(201,822)
Airport Improvement Program		33-555-0159-04	(1,113)	2,389	1,276	-

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CITY OF CHATTANOOGA, TENNESSEE

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(continued from previous page)						
Airport Improvement Program		33-555-0165-04	\$ -	\$ -	\$ 2,579	\$ (2,579)
Airport Improvement Program		33-555-0361-04	-	-	27,876	(27,876)
Total Expenditures of State Awards - Component Unit Audited by Other Auditors			(72,356)	131,075	385,993	(327,274)
Total Expenditures of State Awards - Component Units			(277,511)	2,894,487	3,261,327	(644,351)
TOTAL EXPENDITURES OF STATE AWARDS			(664,265)	5,661,507	5,801,296	(804,054)
TOTAL EXPENDITURES OF FEDERAL AND STATE AWARD:			<u>\$ (2,604,335)</u>	<u>\$35,757,745</u>	<u>\$36,924,903</u>	<u>\$(3,771,493)</u>

CITY OF CHATTANOOGA, TENNESSEE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
June 30, 2002

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of the City and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Program Income

Cash receipts for the Community Development Block Grant (CFDA 14.218) and HOME Investment Partnerships Program (CFDA 14.239) include program income of \$1,364,967 and \$277,996, respectively.

Note 3. Subrecipients

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipient</u>
Community Development Block Grants/ Entitlement Grants	14.218	\$ 2,126,469
Emergency Shelter Grants Program	14.231	85,688
Home Investment Partnerships Program	14.239	1,157,977

Report of Independent Certified Public Accountants on Compliance and on
Internal Control Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With Government Auditing Standards

To the Honorable Mayor
and Members of the City Council
City of Chattanooga, Tennessee

We have audited the financial statements of the City of Chattanooga, Tennessee, as of and for the year ended June 30, 2002, and have issued our report thereon dated November 12, 2002. We did not audit the financial statements of EPB and the Chattanooga Metropolitan Airport Authority. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on those financial statements, insofar as it relates to the amounts included for EPB and Chattanooga Metropolitan Airport Authority, was based solely on the work of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Mayor, the City Council, the City of Chattanooga, Tennessee's management, federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Hazlett, Lewis & Bister, PLLC

Chattanooga, Tennessee
November 12, 2002

Report of Independent Certified Public Accountants on Compliance
With Requirements Applicable to Each Major Federal Program and Internal
Control Over Compliance in Accordance With OMB Circular A-133

To the Honorable Mayor
and Members of the City Council
City of Chattanooga, Tennessee

Compliance

We have audited the compliance of the City of Chattanooga, Tennessee, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. We did not audit the compliance of the Chattanooga Metropolitan Airport Authority whose federal and state financial assistance is \$5,475,738. The report of the other auditors on compliance with the requirements applicable to major programs has been furnished to us, and our opinion on compliance with those requirements, insofar as it relates to the amounts included for the Chattanooga Metropolitan Airport Authority was based solely on the report of the other auditors. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States and Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Chattanooga, Tennessee complied, in all material respects, with requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 2002-1, 2002-2, 2002-3, and 2002-4.

Internal Control Over Compliance

The management of the City of Chattanooga, Tennessee, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters and the report of other auditors did not disclose any matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Mayor, the City Council, the City of Chattanooga, Tennessee's management, federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Haylett, Lewis & Bieter, PLLC

Chattanooga, Tennessee
November 12, 2002

CITY OF CHATTANOOGA, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2002

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified? ☐ yes ☒ no
- Reportable conditions identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? ☐ yes ☒ no
- Reportable conditions identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ☒ yes ☐ no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.000	U.S. Department of Housing and Urban Development:
14.239	Upfront Grant
	Home Investment Partnerships Program
16.592	U.S. Department of Justice:
16.710	Local Law Enforcement Block Grants Program
	Public Safety Partnership and Community Policing Grants (COPS)
20.106	U.S. Department of Transportation:
20.500	Airport Improvement Program
20.507	Federal Transit - Capital Investment Grants
	Federal Transit - Formula Grants
93.600	U.S. Department of Health and Human Services:
	Head Start

CITY OF CHATTANOOGA, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2002

Dollar threshold used to distinguish between type A
and type B programs: \$933,708

Auditee qualified as low-risk auditee? yes X no

SECTION II - FINANCIAL STATEMENT FINDINGS

None

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2002-1: Subrecipient Monitoring

Federal program: CFDA 14.239 Home Investment Partnerships Program
Federal agency: U.S. Department of Housing and Urban Development
Award year: October 1, 2001 to September 30, 2002

Criteria: The Code of Federal Regulations Title 24, Section 92.504(a) states that the participating jurisdiction is responsible for managing the day to day operations of its HOME program, ensuring that HOME funds are used in accordance with all program requirements and written agreements, and taking appropriate action when performance problems arise. The use of State recipients, subrecipients, or contractors does not relieve the participating jurisdiction of this responsibility. The performance of each contractor and subrecipient must be reviewed at least annually. Furthermore, subrecipient monitoring is one of the fourteen compliance requirements for OMB Circular A-133.

Condition: The City did not perform monitoring activities for its community housing development organization (CHDO).

Questioned costs: None

Effect: The City is not in compliance with grant regulations regarding subrecipient monitoring requirements.

Cause: The City did not believe it was appropriate to conduct a formal monitoring visit because it was aware that the organization was working to develop and implement operating procedures relevant to the grant funds.

Recommendation: We recommend that the City perform annual subrecipient monitoring for its community housing development organization in compliance with grant provisions.

Management's response: Although the City did not perform a formal monitoring of the organization for FY 2002, ongoing technical assistance was provided to the organization. The City has scheduled a formal monitoring visit for FY 2003 to satisfy the recommendation. Thereafter, a formal review will be conducted on an annual basis.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

CITY OF CHATTANOOGA, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2002

Finding 2002-2: Davis-Bacon Act

Federal programs: CFDA 14.000 Upfront Grant
Federal agency: U.S. Housing and Urban Development
Award years: August 22, 2001 to August 22, 2003

Criteria: When required by the Davis-Bacon Act, the Department of Labor's (DOL) government-wide implementation of the Davis-Bacon Act, or by Federal program legislation, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL (40 USC 276a to 276a-7). HUD Memorandum 130 defines an apartment building more than four stories in height as a building.

Condition: In our testing, we noted that the City issued a multiple schedule of wage rates with both building and residential pay rates when the project clearly meets the definition for a building. Consequently, one subcontractor paid its workers at rates below the prevailing wage rates.

Questioned costs: \$13,892

Effect: The City has issued improper wage rates leading to the underpayment of workers.

Cause: An incorrect wage decision was issued because HUD Memorandum 131 was misinterpreted as allowing the issuance of a multiple decision.

Recommendation: We recommend that the City ensure that restitution payments are made to workers who were paid below prevailing wage rates. Furthermore, the City should evaluate the pay rates for other labor classifications, calculate whether there were additional underpayments, and initiate appropriate corrective action.

Management's response: The City of Chattanooga will ensure that restitution payments are made to all workers who were paid below prevailing wage rates. Pay rates for classifications are at or above prevailing rates.

Finding 2002-3: Special Tests and Provisions - Retention

Federal program: CFDA 16.710 Public Safety Partnership and Community Policing Grants
Federal agency: U.S. Department of Justice
Award year: January 1, 1997 to December 31, 2001

Criteria: The COPS More grant provides funding for civilian positions to replace administrative time spent by patrol officers. According to the grant agreement, the recipient agrees to retain these new positions for at least one year after the grant becomes fully implemented.

Condition: The City did not retain the new positions for the required time.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

Finding 2002-3: Special Tests and Provisions – Retention (continued)

Questioned costs: None

CITY OF CHATTANOOGA, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2002

Effect: The City is not in compliance with grant provisions.

Cause: In response to a shortfall in revenue and increasing expenditures, the City cut more than 198 positions from its workforce, including 25 civilian police service technicians funded by this program.

Recommendation: We recommend that the City work to ensure grant provisions are followed.

Management's response: Under federal regulations, the City may be eligible for an exemption from the retention requirement. The City is already working closely with the U.S. Department of Justice to obtain the exemption.

Finding 2002-4: Reporting

Federal program:	CFDA 20.106 Airport Improvement Program
Federal agency:	U.S. Department of Transportation
Award year:	July 1, 2001 to June 30, 2002

Criteria: According to the grant agreement with the Federal Aviation Administration (FAA), the Chattanooga Metropolitan Airport Authority is reimbursed by the FAA up to 90% for approved expenditures on Airport Improvement Projects (AIP). The grant also specifies a maximum amount of funding for each project.

Condition: The Airport Authority inadvertently requested and received reimbursement in the amount of \$63,554 from AIP #3-47-0009-22 for costs expended on AIP #3-47-0009-21.

Effect: The Airport Authority is not in compliance with the grant requirements of AIP #3-47-0009-22.

Cause: These two projects are interrelated and many of the same vendors are being used for both projects. The Airport Authority inadvertently requested reimbursement under the wrong project.

Recommendation: Care must be taken to ensure reimbursement is requested from the correct project.

Management's response: We concur with the finding. Procedures are in place to ensure future requests for reimbursement are made from the correct project.

CITY OF CHATTANOOGA, TENNESSEE
SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2002

Finding 2001-1 from June 30, 2001

Federal program: CFDA 16.592 Local Law Enforcement Block Grants Program

Condition: The City did not submit semi-annual programmatic reports or a final grant closeout report.

Current status: The City has taken steps toward grant compliance with reporting requirements, and management has filed the appropriate reports.

Finding 2001-2 from June 30, 2001

Federal programs: CFDA 16.592 Local Law Enforcement Block Grants Program
CFDA 16.710 Public Safety Partnership and Community Policing Grants
(COPS)

Condition: The City did not submit timely reports for two out of four quarters.

Current status: The City has taken steps toward improving timely reporting, and all quarterly reports have been filed timely during the year ended June 30, 2002.